

Mises, Bastiat, Public Opinion and Public Choice: What's Wrong With Democracy

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Abstract:

The political economy of Ludwig von Mises and Frederic Bastiat has been largely ignored even by their admirers. We argue that Mises' and Bastiat's views in this area were both original and insightful. While traditional public choice generally maintains that democracy fails because voters' views are rational but ignored, the Mises-Bastiat view is that democracy fails because voters' views are irrational but heeded. Mises and Bastiat anticipate many of the most effective criticisms of traditional public choice to emerge during the last decade and point to many avenues for future research.

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The flowering of human society depends on two factors: the intellectual power of outstanding men to conceive sound social and economic theories, and the ability of these or other men to make these ideologies palatable to the majority. (Mises 1998a, p. 864)

From what precedes, two conclusions can be drawn: (1) *Sophisms* must be more abundant in the social sciences than in any others, for they are the ones in which each person consults only his own opinion or his own instinctive feelings; and (2) it is in these sciences that *sophisms* are especially harmful, because they mislead public opinion in a field in which public opinion is authoritative—is, indeed, law. (Bastiat 1964a, p. 123)

1. Introduction

Even some of Ludwig von Mises' staunchest admirers have found his political analysis naïve. It was no fault of his, they hasten to add, that his most productive decades preceded the rise of modern public choice scholarship. But it would be overgenerous to call him "ahead of his time." Thus, according to Peter Boettke, Mises'...

... commitment to the assumption of public official benevolence translated into an assertion of public interest motivation behind economic policy. But, as subsequent developments in public choice theory have argued, the assumption of benevolence provides a woefully deficient foundation for understanding the logic of politics within representative democracies. (2001, p. 12)

For Boettke, modern public choice challenges “the effectiveness of Mises’ core analytical assumptions for generating policy relevant political economy.” Indeed, he goes so far as to conclude that “Mises’ exhortation for government to pursue ‘sound’ economic policies in the face of public choice logic was futile.” (2001, p. 12)

The current paper challenges negative appraisals of Mises’ political economy. He was indeed ahead of his time. Mises leapfrogged over the major mistakes in the public choice consensus, proceeding straight to the more sophisticated view favored by scholarship of the past decade. We argue further that Frederic Bastiat, famously belittled by Schumpeter for his lack of theoretical novelty, shares Mises’ foresighted economics of politics.¹

Mises and Bastiat disagree with conventional public choice theory in two fundamental ways. First, Mises and Bastiat are much more *optimistic* about the tendency of the democratic mechanism to translate public opinion into policy. While they acknowledge the existence of lags and other frictions, they regard them as exceptions that prove the rule. Conventional public choice analysis, in contrast, sees a severe agency problem at the heart of democracy. It accordingly puts far greater emphasis on the ability of special interests - including politicians and bureaucrats themselves - to hijack the democratic process.

Second, Mises and Bastiat are sharply more *pessimistic* about public opinion. In modern terms, they believe that the general public suffers from *systematically biased beliefs about economics*. The public imagines, among other oddities, that protectionism raises domestic living standards, minimum wages do not create unemployment, and

giving consumers fewer options makes them better off. Conventional public choice, in contrast, generally holds that public opinion opposes inefficient policies, at least those that redistribute from the majority to minorities. The only way politicians who favor such policies stay popular is by preventing the public from learning that they preach the public interest but serve the special interests.

Both the Mises-Bastiat view and the standard public choice view reach relatively negative conclusions about democracy. But the two positions appeal to contradictory mechanisms. In the usual public choice view, the problem with democracy is that the voters are right, but ignored. In the Mises-Bastiat view, the problem with democracy is that the voters are wrong, but heeded.

We structure the paper as follows. Section two explores Mises' economics of politics in detail. Section three does the same for Bastiat. Section four contrasts their position with that of traditional public choice. Section five explains how recent theoretical and empirical work supports the supposedly naive Mises-Bastiat view. Section six investigates the areas in which Mises' and Bastiat's foresighted writings point to fruitful avenues for future research. Section seven concludes.

2. The Public Choice of Ludwig von Mises

Free-market thinkers typically denigrate the tendency of the democratic process to heed majority preferences. In spite of his unquestioned free-market credentials, Mises has no sympathy for this line of thought. In fact, he embraces an extreme version of the position found in most high school civics textbooks. Behind the veil of the political process stands what really matters: the voice of the people.

What determines the course of a nation's economic policies is always the economic ideas held by public opinion. No government, whether democratic or dictatorial, can free itself from the sway of the generally accepted ideology. (1998a, p. 850)

Indeed, Mises practically embraces a monocausal theory in which public opinion is all that matters²:

The supremacy of public opinion determines not only the singular role that economics occupies in the complex of thought and knowledge. It determines the whole process of human history. (1998a, p.863)

Note well that he is not theorizing about how ideal democracy "should work." He is making the descriptive claim that democracy *as it exists* impels politicians to embrace and implement whatever policies are most popular. Mises dismisses, for instance, the view that the end of the gold standard was foisted on an unwilling public:

Whatever the constitutional state of affairs may be, no government could embark upon "raising the price of gold" if public opinion were opposed to such a manipulation. If, on the other hand, public opinion favors such a step, no legal technicalities could check it altogether or even delay it for a short time. What happened in Great Britain in 1931, in the United States in 1933, and in France and Switzerland in 1936 clearly shows that the apparatus of representative government is able to work with the utmost speed if public opinion endorses the so-called experts' opinion concerning the expediency and necessity of a currency's devaluation. (1998a, p. 788)

His claim is symmetric. Without public support, the change would never have happened; with public support, the change could not have been stopped. In terms of logic, Mises is saying "if and only if."

What mechanism connects public opinion and policy? At the most fundamental level, politicians in tune with public opinion tend to win positions of authority; politicians out of sync with public opinion tend to be removed from office:

A statesman can succeed only insofar as his plans are adjusted to the climate of opinion of his time, that is to the ideas that have got hold of his fellows' minds. He can become a leader only if he is prepared to guide people along the paths they want to walk and toward the goal they want to attain. A statesman who

antagonizes public opinion is doomed to failure... [T]he politician must give the people what they wish to get, very much as a businessman must supply the customers with the things they wish to acquire. (1985, p.186)

Coming from Mises, the final analogy is striking. His analysis of the entrepreneur-consumer link is packed with superlatives:

In the capitalist system of society's economic organization the entrepreneurs determine the course of production. In the performance of this function they are unconditionally and totally subject to the sovereignty of the buying public, the consumers. If they fail to produce in the cheapest and best possible way the commodities which the consumers are asking for most urgently, they suffer losses and are finally eliminated from their entrepreneurial position. (1980, p.108)

It is extraordinary, then, that Mises freely compares the politician's dependence on the public with the businessman's dependence on consumers. What is his rationale? To use modern terms: the median voter model. Voters have preferences, and prefer politicians who support those preferences. Since politicians want to win, they have a clear incentive to conform: "No matter what the constitution of the country, governments always have to pursue that policy which is deemed right and beneficial by public opinion. Were they to attempt to stand up against the prevailing doctrines they would very soon lose their positions to men willing to conform to the demands of the man in the street." (1998b, p.xii)

Political agency problems are, for Mises, of little importance:

To achieve the ends for which democratic institutions strive it is only necessary that legislation and administration shall be guided according to the will of the majority *and for this purpose indirect democracy is completely satisfactory*. The essence of democracy is not that everyone makes and administers laws but that lawgivers and rulers should be dependent on the people's will in such a way that they may be peaceably changed if conflict occurs. (1981a, p. 63; emphasis added)

If democracy is such a great tool for matching public opinion and public policy, how could he have been so critical of the political-economic direction of the 20th century? Quite simply, Mises questions the wisdom of public opinion.³ The public commits an array of what we would now call systematic mistakes:

Democracy guarantees a system of government in accordance with the wishes and plans of the majority. But it cannot prevent majorities from falling victim to erroneous ideas and from adopting inappropriate policies which not only fail to realize the ends aimed at but result in disaster. (1998a, p.193)

Mises naturally focuses on the public's erroneous ideas about *economics*: "The fact that the majority of our contemporaries, the masses of semi-barbarians led by self-styled intellectuals, entirely ignore everything that economics has brought forward, is the main political problem of our age." (1981b, p. 325) What makes the situation so dire?

The body of economic knowledge is an essential element in the structure of human civilization; it is the foundation upon which modern industrialism and all the moral, intellectual, technological, and therapeutical achievements of the last centuries have been built... [I]f [men] fail to take the best advantage of it and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race. (1998a, p.885)

Mises criticizes the economic beliefs of the general public on many dimensions. But the overriding errors he identifies are underestimation of the social benefits of laissez-faire and overestimation of the social benefits of socialism. Though he was convinced that free markets lead to cooperation and socialism to chaos, Mises did not imagine that his views were widely shared:

There is no use in deceiving ourselves. American public opinion rejects the market economy. (1981b, p. 325)

It cannot be denied that dictatorship, interventionism, and socialism are extremely popular today. No argument of logic can weaken this popularity. (1998b, p. 85)

He uses the same analysis to explain more specific aspects of government policy. Take international trade. Mises (1998a, p.83) credits the 19th century move to free trade to the public's acceptance of economic law: "The nineteenth-century success of free trade ideas was effected by the theories of classical economics." Conversely, he blames the retreat from free trade to the revival of earlier misconceptions: "The ultimate foundation of modern protectionism and of the striving for economic autarky of each country is to be found in this mistaken belief that they are the best means to make every citizen, or at least the immense majority of them, richer." (1998a, p.317)

Mises' writings predate the modern technical distinction between mere ignorance and actual irrationality.⁴ (Sheffrin 1996; Pesaran 1987) But he strongly leans in the latter direction. Consider Mises' analysis of unemployment and labor regulations. At first glance, he seems to claim that the public has never heard the standard economic arguments: "Public opinion *fails to realize* that the real cause for the permanent and large unemployment is to be sought in the wage policy of the trade unions and in the assistance granted to such policy by the government. The voice of the economist does not reach the public." (1998b, p. 33, emphasis added) But Mises also admits that when the voice of the economist does reach the public, it is rarely heeded. After discussing economists' centuries-long opposition to "progressive" policies, he (1998b, p.xi) observes that "Governments, political parties, and public opinion have just as persistently ignored their warnings. They ridiculed the alleged doctrinarism of 'orthodox' economics and boasted of their 'victories' over economic theory."

Thus, even when the public is seated at the banquet of economic knowledge, it refuses to eat. How is this possible? People are, in essence, refusing to use their rational faculties⁵:

The fanatics obstinately refuse to listen to the teachings of economic theory. Experience fails to teach them anything. They stubbornly adhere to their previous opinions. (1998b, p.85)

The man on the street is not innocently "out of the loop." He is a willfully illogical "fanatic."

In contrast, when most economists analyze the public's systematic biases they quickly blame interest groups for spreading false information. But Mises emphasizes joint

causation. Fallacies are only persuasive because the public *fails to exercise common-sense skepticism*:

The main propaganda trick of the supporters of the allegedly 'progressive' policy of government control is to blame capitalism for all that is unsatisfactory in present-day conditions and to extol the blessings which socialism has in store for mankind. They have never attempted to prove their fallacious dogmas or still less to refute the objections raised by the economists. All they did was to call their adversaries names and to cast suspicion upon their motives. And, unfortunately, the average citizen cannot see through these stratagems. (1969, p. 111)

But does not Mises ceaselessly inveigh against special interests, with whom "nothing counts but the short-run concerns of the group they are serving" (1998a, p.869)? Indeed he does. But public sympathy is the necessary catalyst. Special interests always want government assistance. Whether or not they can get it - indeed, whether or not asking is worth the trouble - hinges on majority opinion.

What about politicians themselves? While Mises occasionally imputes cynical motives to statist politicians, he sees them as largely sincere. Indeed, he interestingly maintains that "true believers" have a competitive advantage over opportunists: "But in the end, prophets who in their heart know themselves to be false cannot prevail against those filled with the power of sincere conviction." (1981a, p. 461) If politicians are snake oil salesmen, they are snake oil salesmen who by and large believe their brand of snake oil is safe and effective.

Stories like Mises' have often been accused of being "pessimistic." This objection is not only scientifically irrelevant, but false as well. After all, if special interests trump public opinion, then economists' efforts to enlighten the public are futile. Why bother convincing mere figureheads? In Mises' view, however, economic education can move

mountains. Changing public opinion in the right ways is virtually a sufficient condition for stopping socialism and even reviving laissez-faire:

The world inclines to Socialism because the great majority of people want it. They want it because they believe that Socialism will guarantee a higher standard of welfare. The loss of this conviction would signify the end of Socialism. (1981a, p. 462)

[I]f a revolution in public opinion could once more give capitalism free rein, the world will be able gradually to raise itself from the condition into which the policies of the combined anticapitalist factions have plunged it. (1978, p.156)

Thus, in spite of a number of negative observations about the general public, Mises remains eager to communicate with it in order to improve public policy.

3. The Public Choice of Frederic Bastiat

Interspersed throughout the writings of Frederic Bastiat, one can find a political economy in the same spirit as Mises'. Bastiat has confidence in the power of majority voting to make politicians bow to public opinion: "Political power, the law-making ability, the enforcement of the law, have all passed, virtually, if not yet completely in fact, into the hands of the people, along with universal suffrage." (1964b, p.92) While he recognizes that institutional details may have marginal effects on policy, he downplays them: "[P]ublic opinion, whether enlightened or misguided, is nonetheless mistress of the world." (1964c, p.272)

Bastiat grants that democracy's claim to represent the people is well-grounded in fact, but he sharply criticizes the policies that democracies adopt. Proponents of democracy would almost automatically see these positions as contradictory. However, they fail to ask the most important question: "When it is time to vote, apparently the voter is not to be asked for any guarantee of his wisdom. His will and capacity to choose wisely are taken for granted." (1998, p.60) This is a serious sin of omission because public opinion is riddled with systematic errors, or, as Bastiat terms them, "sophisms."

Perhaps the public is not fully culpable because others have misled them. But the nonsense majorities have endorsed practically has no limit. To take Bastiat's most famous example, he accuses the public of "broken window" thinking - ignoring opportunity costs. People favor wasteful government programs because they fail to consider the *alternative uses* of wasted resources. They want a large military in peacetime because they implicitly assume that there is nothing else for discharged soldiers to do. They favor fruitless public works projects to "create jobs," not realizing that the taxes that fund these projects destroy as many jobs as they create.

And this is only one popular fallacy out of many. Indeed, probably no one has dissected the public's misconceptions as thoroughly as Bastiat. Unfortunately, this often leads readers to misinterpret him as merely an economic educator. Much more is going on. His analysis of sophisms is the cornerstone of his positive political economy. As economic confusion rises, the quality of policy falls:

When one of these fundamental errors... becomes firmly established as a *conventional* judgment, unquestionably accepted and agreed to by everybody, it tends to proceed from theory to practice, from thought to action. (1964c, p. 272)

Bastiat repeatedly calls the public "ignorant," but in modern terminology "systematically biased" is the charge he has in mind. Their errors are willful: The people "shut their eyes" to "simple truths." (1964a, p. 115) Although they have never studied economics, non-economists treat their prejudices as fact, and resist efforts to correct them:

If someone needs to solve a problem in chemistry or geometry, he does not pretend to have an innate knowledge of the science... But in the social sciences, people acknowledge scarcely any authorities. (1964a, p. 122-3)

One of Bastiat's chief hopes is to break through the public's dogmatism: "It is not my expectation that when the reader puts down this book he will cry out, 'I know!' Would to heaven that he might honestly say to himself, 'I don't know!'" (1964a, p. 124) Like Mises,

he emphasizes the "fanaticism" of his opponents: "Yet all these sectaries were acting in good faith, and this made them all the more dangerous; for a sincere commitment to error is fanaticism..." (1964c, p. 272)

Bastiat did not dislike the common man, but the same cannot be said for special interests, who he denounces as "robbers" (and worse!). But as a descriptive matter, there is joint causation. Special interests work *through* public opinion rather than against it. Interests do not persuade the legislator to harm his constituents; they convince the constituents to ask to be harmed:

Protectionism is too popular for its adherents to be regarded as insincere. If the majority had faith in free trade, we should have free trade. It is doubtless motives of self-interest that have been responsible for the imposition of tariffs, but only after having produced sincere conviction. (1964a, p. 45)

If the public exercised common-sense skepticism, lobbying for protectionism would be pointless. Indeed, interest groups' tactics show how *little* autonomy politicians have vis-a-vis the electorate. They have no need to deceive the powerless. The key then for Bastiat is to educate the public of policies that would best serve their interests.

4. Traditional Public Choice

Any generalization about a diverse and decades-old research program like public choice is bound to admit exceptions. But we can fairly assert that the main thrust of public choice scholarship from the 1960s to the 1980s cuts directly against the Mises-Bastiat approach. While both views maintain that democracies regularly adopt policies contrary to majority interests, traditional public choice puts great weight on agency problems and little on defective public opinion.⁶

Wagner aptly expresses the standard view: "It is surely a reasonable presumption that societal processes are dominated by an organized intensity of interest and effort." (2003, p.18) Considerable debate has occurred, however, about the severity of democracy's agency problems and the extent of insiders' "domination."⁷ Nevertheless, agency problems - whether large or small - are the preferred explanation for the existence of policies that harm the majority.

A case in point: Why do we have farm subsidies? How can they exist when they are economically harmful to a majority of citizens? The standard public choice explanation is special interests. Strong farm interests are more effective at lobbying for government handouts than the amorphous public is at blocking them. As Gwartney and Wagner explain:

When the benefits are concentrated and the cost diffused, politicians will be led as if by an invisible hand to serve the purposes of the well-organized, concentrated beneficiaries...Of course, the average ("rationally ignorant") voter is totally unaware that special interest policies have pushed up the price of sugar, while the sugar farmers are among the leading contributors to those politicians who exert a key impact on agricultural policy. (1988, p.21)

The tacit assumption is that the public would oppose such measures if it knew they existed. People grasp the basic truth that tariffs hurt their interests. Yet because one vote has little effect on policy, they choose to remain ignorant about the vital details: what tariffs exist and who is responsible for them. Therefore, punishing politicians for their misdeeds is difficult.⁸ Special interests, in contrast, have strong incentives to get informed and actively participate in the political process—their livelihood depends on it. Thus, even if a comfortable majority opposes a given policy in the abstract, special interests tend to prevail.

One must not forget, moreover, that politicians and special interests can be one and the same. If a politician can covertly help farmers, he can covertly help himself. Politicians could win elections by offering the most popular platform, but then ignore their assigned mandate and do as they please. As Charles Rowley puts it:

[T]here is no guarantee that a government elected on a median voter platform will honor its political pledges. As the 1992 Clinton presidential victory demonstrates, elected officials may cynically jettison *all* their electoral pledges immediately following an election and rely upon voters' failing memories to carry them forward to subsequent electoral success. (1994, p.292, emphasis original)

The complexities of indirect democracy intensify these problems, making it even harder for voters to identify and punish misconduct. How should the blame for deficits of the 1980s be divided between House, Senate and president? And even if the electorate were lucky enough to spot bureaucratic excesses, what instruments do they have to discipline *unelected* officials? Other features of indirect democracy, particularly geographical representation, create "fiscal commons" problems because representatives care about what their district gets rather than the fiscal health of the nation as a whole. (Holcombe 1985)

Although some public choice economists maintain that little can be done to overcome special interests (Tullock 1987), most emphasize improved institutional design, particularly at the constitutional level. (Brennan and Buchanan 1980; Brennan and Buchanan 1985) Preaching will not solve agency problems, but smarter political constraints might. Separation of powers, bicameralism and term limits are but a few proposals designed to make government better serve the public. (Anthony, 1998; Bradbury and Crain, 2002; Crane and Pilon, 1994)

5. Recent Evidence

Over the past decade, economists have heavily criticized traditional public choice on both theoretical and empirical grounds. We maintain that these criticisms are largely correct. When combined, moreover, they leave a picture of democracy strikingly similar to that of Mises and Bastiat. Instead of chiding them for failing to anticipate the public choice revolution, we should hail the Mises-Bastiat view for leapfrogging over a persuasive but often wrong-headed intellectual detour.

a. Wittman's *The Myth of Democratic Failure*

Many theorists have criticized various aspects of standard public choice theory. (Becker 1983; Stigler 1986; Wittman 1989) Donald Wittman's (1995) *The Myth of Democratic Failure* provides a comprehensive synthesis of this family of objections. As he succinctly expresses his thesis: "Behind every model of government failure is an assumption of extreme voter stupidity, serious lack of competition, or excessively high negotiation/transfer costs." (1989, p.1421)

"Extreme voter stupidity." Most public choice economists would instantly counter that they assume voter *ignorance*, not "stupidity" or "irrationality." But Wittman maintains that they are abusing basic information economics. Ignorance is not sufficient for their conclusions because on the standard rational expectations assumption, ignorance only increases estimates' *variance*; it does not cause systematic error. Being ignorant about government spending in no way implies a tendency to underestimate its level. Being ignorant about protectionism does not mean that you think it works better than it really does. Once you grant this point, basic statistics has a strong implication: No matter how severe individuals' ignorance, their mistakes balance out as long as the electorate is reasonably large. Voter ignorance as such does not tip the electoral scales in favor of pork or protectionism.

But what about politicians who, under the influence of special interests, preach free trade but secretly practice protection? As long as the probability of discovery exceeds zero, voters have a simple expedient: dire punishment. This is standard Beckerian logic: As the probability of punishment falls, its severity must rise. Suppose, for example, that a politician is "caught on tape" accepting a small bribe. Ignorant voters could effectively deter such behavior by throwing him out of office, out of public life entirely, or into jail. And since no politician can ever be 100 percent sure that he will escape detection, incentives to stay honest can exist even if dishonesty usually pays. Consider the damage politicians have done to their careers with minor lapses like stealing stamps, making personal calls at government expense, or characterizing a budget as "niggardly."

A natural objection is that politicians manipulate voters with biased information. Once again, a straightforward theoretical response exists: Ignorant does not mean gullible. A rationally ignorant economic actor *discounts information according to its reliability*. If he is so ignorant that he cannot distinguish differences in reliability, he can still greet all sources with uniform common sense skepticism. Uncritically swallowing empty promises is stupidity, not ignorance. Thus, ignorant auto buyers do not hypnotically buy a car because the dealer enthusiastically claims it is "the deal of a lifetime." Until the expected benefit exceeds the expected cost, they wait. This in turn gives dealers an incentive to raise the expected benefits with guarantees, third-party inspection, reputation, and so on. Similarly, if voters cannot tell good programs from bad, they can adopt a "when in doubt, oppose" stance. If guarantees, inspection, and reputation are as politically feeble as many public choice scholars assert, the consequence, counter intuitively, would be *less government*. Voters and politicians would stand at a cheap talk impasse.

Note that Wittman only demonstrates that some standard public choice arguments are logically *invalid*; the premises do not imply the conclusions. It does not follow that the conclusions are wrong. Indeed, Wittman eagerly grants that if voters were "stupid," or, in technical terms, *irrational*, then the standard conclusions could be logically deduced. If voters have blind faith in their leaders, wasteful programs multiply like rabbits. Wittman, however, is relying on economists' deep-rooted aversion to irrationality-based explanations. He calculates, probably correctly, that most economists will admit that "political failure is largely a myth," before they will admit that "voters are irrational."

"Serious lack of competition." Political failure arguments often appeal to monopoly power instead of voter ignorance. Those who fret over the dangers of collusion each time an industry's concentration ratio inches up often see nothing wrong with more than a century of political duopoly in the United States. If the Democrats and Republicans colluded, the only way to stop them would be to incur the enormous expense of forming a third party.

For old-fashioned structure-conduct-performance economists committed to the perfectly competitive benchmark, these arguments have considerable force. But many economists see this benchmark as flawed (Bork 1993; Rothbard 1993; Armentano 1999). Ubiquitous real-world conditions - especially economies of scale - make the pursuit of an atomistic market structure extremely questionable. A smaller number of firms makes collusion *easier*, but it hardly implies that it becomes easy. Indeed, even a single firm may act competitively due to the threat of potential competition.

Once one recognizes the wrong-headedness of the perfectly competitive benchmark for markets, it is hard to avoid the conclusion that the benchmark is equally misguided in politics. Political parties have obvious scale economies, especially where information is concerned. Imagine exogenously creating hundreds of new parties. At first, voters would be horribly confused. But it would not be a stable equilibrium. Political competition would swiftly eliminate most of the parties by merger and attrition until the dust settled and voters once again felt comfortable choosing between the available "brands." Admittedly, this effect is less extreme under proportional representation. But even in multi-party systems, there are usually far fewer parties than politicians, and scale economies are the most natural explanation.⁹

What about barriers to entry? Those who use the perfectly competitive benchmark often put the "barrier" label on everything from product differentiation to capital requirements. But critics have pointed out the absurdity of this approach. After all, incumbent firms had to face the same "barriers" when they started out. The main barriers worthy of attention are *legal* restrictions on entry.

These admittedly exist in democracy to some degree. Members of third parties frequently recount their annual quest to gather signatures to get on the ballot. But many such "barriers" can be credibly interpreted as an effort to make voters' lives easier, not to limit their choices. Without signature or other requirements, the federal ballot would be as thick as a phone book. The number of candidates would number in the thousands, but almost no one would want to vote for the new additions.

In any case, it is hard to see that legal restrictions on political competition have much effect on policy. Can anyone seriously claim that the Libertarian Party or Green Party's

low vote shares are primarily due to some factor *other* than the extreme unpopularity of the policies they favor?¹⁰ Third parties have done well historically as long as they enjoyed the support of a significant fraction of the electorate, like Theodore Roosevelt's Progressives in 1912 or Ross Perot's Reform Party in 1992. Moreover, political scientists have long observed that major parties quickly adopt third-party planks that strike a responsive chord, just as standard models of potential entry predict. (Stone and Rapoport 2001)

"Excessively high negotiation/transfer costs." A final class of political failure arguments relies on neither voter ignorance nor imperfect political competition. The problem, instead, is that voting fails to adjust for preference intensities, so winning policies may be highly inefficient. Rent control is a classic example: if 1,000 tenants each gain \$1, and 10 landlords each lose \$200, democracy imposes rent control, with a net monetary loss of \$1,000. The obvious corrective mechanism is political bargaining; landlords could bribe each tenant \$1.50 to the benefit of both groups. If bargaining is expensive, however, the problem may remain severe.

Wittman has several lines of response to these concerns. Above all else, representative democracy greatly reduces transactions costs relative to unanimity. "Agreements" that require 51 percent approval instead of 100 percent, like a regular contract, are cheaper to forge. It costs less for a few hundred "representatives" to make a deal than a hundred million citizens.

A second provocative point Wittman makes is that bundling can often reduce the cost of political transactions. If there are a thousand small impositions, each of which costs less than the transactions' costs of repeal, a clever legislator could propose an "omnibus

repeal bill" to eliminate them all in one swoop. This logic was in play for the military base closing legislation of the 1990s. And to his predictive credit, Wittman made this point a couple years before the Cold War ended. (1989, p.1409-12)

b. Empirics: The Status Quo is Popular

Positivists might dismiss Wittman's analysis as a priori theorizing, but Austrians cannot. Either way, looking at the empirical evidence is worthwhile. If Wittman is right about political competition, then the policy status quo should be popular.

Two main empirical approaches are possible here. The first puts the onus of proof on the critics with the following challenge: *Name the policies that now exist in the United States that a majority does not want.* Tariffs and quotas? In fact, strong empirical evidence suggests that the public favors at least as much protectionism as we now have. (Scheve and Slaughter 2001; Rielly 1999)¹¹ Pork barrel spending? Representative surveys of the U.S. population like the *General Social Survey* (1998; henceforth GSS), conducted by the National Opinion Research Center at the University of Chicago, show that solid majorities favor current spending levels on pork's classic expressions, bridge and highway spending. (Table 1) If not these, then what?

The second empirical approach is to demonstrate that at least the quantitatively significant features of existing policy are in fact popular. Take Social Security. The standard public choice explanation blames AARP lobbying and high turnout of elderly voters. But the GSS routinely finds that an overwhelming majority favors as much or more spending for this program than now exists. (Table 1) Support for cuts stands in the *single digits*.

Similar patterns can be seen for most of the big-ticket items in the federal budget; if anything, Americans are getting *less* government than they want. (Table 1) As a general rule, support for spending on the environment, health care, education, crime, and anti-drug programs is overwhelming. Public opinion is solidly behind spending for Social Security, infrastructure, and parks. National defense is less popular - those who favor cuts typically outnumber those who favor increases. But the median respondent favors the status quo. The only categories of spending that a majority wants to cut are space exploration and welfare (intermittently) and foreign aid (invariably). And even on welfare, opposition is tenuous; government-funded job training is more than twice as popular as dropping recipients from the rolls and expecting them to find low-skill jobs. (*National Survey of Public Knowledge of Welfare Reform and the Federal Budget*, 1995, Question 19).

Admittedly, interpreting survey evidence is tricky. A large majority of GSS respondents also expresses general support for cutting government spending. But when you ask for specifics, they only favor cuts in a handful of relatively small programs. When offered a realistic trade-off, most of the public balks. Thus, when asked, "If the government had a choice between reducing taxes or spending more on social programs like health care, social security, and unemployment benefits, which do you think it should do?" the split was roughly 40/60 in favor of more spending.¹²

What about regulation? At the most abstract level, Americans who want less outnumber those who want more. The median position favored less regulation during 1983-7, the status quo during 1988-91, and stood right at the border in 1996. But on closer examination, this moderate hostility to regulation turns out to be superficial. Americans

who believe that it is "government's responsibility to keep prices under control" predominate more than 2:1. About 80 percent of Americans think that government should "require businesses to provide consumers with the information they need to make informed choices." Industrial policy for both high-tech and declining industries enjoys majority support. The median American persistently favors "government financing of projects to create new jobs," and at least does not oppose French-style "work sharing," though he does reject the view that government should "provide a job for everyone who wants one."¹³

One particularly interesting set of questions in the GSS asks respondents whether various industries should be government-owned, private with regulated prices and profits, or private without these regulations. Preferences and actual policy turn out to match rather cleanly. The majority wants regulation but not government ownership for electric power, mass transit, banking, and insurance. It favors private ownership without price/profit regulation for steel and cars.¹⁴

Thus on regulation, too, the public is largely content with the status quo. When the man on the street complains about regulation in abstract terms, it does not mean that he prefers to rely on market forces. What he wants is to "cut red tape," to streamline existing regulations.

Our point is not that *no* unpopular policies exist. But bona fide examples are hard to come by, and *quantitatively significant* ones are scarcer still. Foreign aid is genuinely unpopular. But it absorbs roughly one percent of the federal budget; complete abolition

of foreign aid would leave the size of government almost unchanged. Immigration restrictions are a more substantial deviation from voter preferences - for being too lax. In 1994, close to a 2/3 majority wanted less immigration, and the modal response was "decrease a lot." If you cast a broader net, you can find other occasional departures from majority preferences. As recently as 1998, for example, most Americans continued to want greater scope for prayer in school.¹⁵ Overall, however, "What is, is popular," is a fair generalization.¹⁶

c. Theory: Rational Irrationality

Traditional public choice avoids any appeal to voter irrationality, often making it tantamount to rejecting economics itself. After all, voters are also consumers, workers, and investors; to say that voters are irrational is to say that *people* are irrational. In a series of papers, however, Caplan (2001a, 2001b, 2003) turns the standard view upside-down, maintaining that basic economic theory implies that otherwise rational actors tend to *become irrational* on political matters.

Caplan begins with the observation that people often have *preferences over beliefs*. Embracing specific beliefs gives their lives meaning, makes them feel better about themselves, or helps them get along with important people in their lives. Religious and political beliefs are the classic examples, a point eloquently driven home in Eric Hoffer's classic *The True Believer* (1951). When people become libertarians, for example, they often feel like the world makes sense, that they have a purpose (to advance liberty), and that they are better people than statisticians. To abandon libertarianism would be to lose all of these psychological benefits - and possibly a lot of libertarian friends. Even if a

libertarian stumbled on the conclusive disproof of his worldview, changing his mind has both psychological and social drawbacks.

Of course, reality itself gives us reasons to change our minds: False beliefs can lead to disastrous consequences. If you believe you can fly, you will not believe it for long. On the other hand, false beliefs do not inexorably lead to practical failure. Unless you are pursuing a career in biology, rejecting evolution is unlikely to affect your lifespan or your bank account.

All this points toward an economic theory of irrationality: Conceptualize actors as trading off between material wealth and cherished beliefs. More of one means less of the other. From here, it is easy to draw a "demand for irrationality" curve, where the quantity of irrationality falls as its price in terms of material wealth rises. (Figure 1) Thus, one can be rationally irrational, in the sense that consumption of irrationality responds to its implicit price in terms of real-world success.

Now recall the standard argument for rational ignorance: being ignorant about politics is rational because one vote does not matter anyway. You could safely vote at random. Caplan maintains that this zero cost of error has broader implications than usually appreciated. Returning to the demand for irrationality diagram, notice that democracy makes irrationality a free good. Like a diner at an all-you-can-eat buffet, the voter's incentive is to "sate" his desire for irrational beliefs - to embrace whatever crazy policies appeal to him, no matter how deadly they would be in practice.

A common response to Caplan's pessimistic assessment of voter incentives is that policy disasters give the necessary incentive to think rationally. But this objection

conveniently overlooks basic marginal analysis. If one person in a nation plagued by bad economic policy reads Bastiat and changes his mind, does policy change? The answer is almost certainly no. All that happens is that the lone voice of reason becomes a social pariah. At the margin, policy failures provide no added incentive to be rational.

What about politicians? Do they have an incentive to be rational? Yes and no. Politicians do have an incentive to rationally assess the public's *response* to their actions. It is less clear, however, that politicians have an incentive to think rationally about what their policies will really accomplish. If the people want rent control and favor politicians who agree, what good does it do for a politician to know that their economic analysis is defective?

Caplan (2001a, 2001b, 2003) spell out the implications of rational irrationality in detail. Many standard public choice theorems remain unchanged. Politicians still compete for the public's affections by catering to their policy preferences. Yet other attributes of democracy change. Above all else, the presumption that popular policies serve majority interests is overturned.

d. Empirics: Systematically Biased Beliefs About Economics

Wittman's rejection of claims about systematic voter errors is strident. But his position is at least the tacit consensus. To assert that a public choice position assumes voter bias is widely considered a strong objection. A political economist accused of assuming voter bias is far more likely to deny the charge than to insist that the assumption is justified.

Why are economists so skittish? Have the claims of Bastiat and Mises about voters' systematic errors suffered a decisive empirical defeat? Not at all. The objections are

only theoretical: Systematic errors are inconsistent with the now-standard assumption of rational expectations. But the last section showed how unconvincing this position is in pure theory. Under the circumstances, empirical work is likely to be profitable.

If rational expectations holds, we should expect the *average* beliefs of laymen and experts to be identical.¹⁷ If they are not, we can infer that rational expectations fails to hold for at least one of the groups. A reasonable presumption, moreover, is that when laymen and experts conflict, the experts are correct. The presumption is defeasible: the experts might be ideologically biased or have a vested interest in their views. But as a general rule, the burden of proof has to rest on the critics.

Now a substantial literature examines the economic beliefs of both experts—professional economists—and laymen (Blendon *et al* 1997; Rhoads, 1985; Walstad, 1997). The results are generally consistent with the Mises-Bastiat view: the public seems more protectionist, more focused on "saving jobs," and more skeptical of the market than economists. But an apples-to-apples comparison is difficult because surveys usually target *either* economists *or* the public, posing different questions. .

Fortunately, there is one excellent exception to the rule: the Survey of Americans and Economists on the Economy (henceforth SAE). This study, produced by the Kaiser Family Foundation, the *Washington Post*, and Harvard, asked 1,510 randomly sampled Americans and 250 Ph.D. economists the same wide-ranging battery of questions about the economy. (Blendon *et al.* 1997) The authors of the study found strong *prima facie* evidence of lay-expert belief gaps on almost all questions.

Analyzing the data set, Caplan (2002) shows that these belief gaps are quite robust. The effect of economic training is statistically significant for more than 80 percent of the questions, and typically very large in size. Furthermore, the two most popular theories that question economists' objectivity can be rejected. Controlling for "self-serving bias" using variables like income, income growth, job security, gender, and race only slightly reduces the absolute magnitude of the gaps. The reason why economists and the public disagree is *not* that economists are materially well-off. Rich non-economists generally think like poor non-economists, not rich economists. Controlling for "ideological bias" with party identification and left-right ideological placement actually slightly *increases* belief gaps' absolute magnitude. The reason why economists and the public disagree is not that economists are conservative ideologues. In fact, the typical economist surveyed is a moderate Democrat.

Modern data seems quite consistent with the Mises-Bastiat dissection of the public's misconceptions. The public suffers from a strong anti-foreign bias, a tendency to underrate the economic benefits and overrate the dangers of dealing with people from other countries. It exhibits what Bastiat calls "Sisyphism" - seeing employment as a good in itself rather than a means to the end of production. Non-economists also display a powerful anti-market bias. They resist supply-and-demand explanations of price determination in favor of monopolistic conspiracy theories. And as Bastiat put it, they habitually focus on "what is seen" to the neglect of "what is not seen." Thus, the SAEI indicates that public naively sees profits, executive compensation, and business taxes as mere transfers between rich and poor, and rarely considers their effect on incentives.

We hope further empirical work will explore the robustness of these findings across the world and over time.¹⁸ In a sense, though, data limitations make the match between his

findings and the writings of Bastiat and Mises more impressive. Bastiat's generalizations about public opinion come largely from his experiences in 19th century France. Mises' life experience took him all over Europe, but he was almost sixty years old by the time he emigrated to the United States. That their writings could so aptly describe late 20th century America suggests that Bastiat and Mises identified deep errors, not transient aberrations.

6. Old Ideas, New Directions

If the public choice of Mises and Bastiat is as prescient as we claim, it stands to reason that their work would be a fruitful source of new ideas. This section points to what we see as the most pregnant themes in their writings, but it is only meant to be suggestive. In part, we hope to whet the reader's curiosity, prompting political economists to read Mises and Bastiat more closely.

When misconceptions matter. Both Mises and Bastiat admit that economics is not unique in being misunderstood. Most disciplines have failed to communicate even their rudimentary conclusions to laymen. But Mises and Bastiat add that widespread misconceptions are harmless for some disciplines, but deadly in others. According to Mises:

The fact that the masses are ignorant of physics and do not know anything substantial about electricity does not obstruct the endeavors of experts who utilize the teachings of science for the satisfaction of the wants of the consumers... [T]heir ignorance regarding the achievements of the natural sciences does not endanger our spiritual and material welfare. It is quite different in the field of economics. (1981b, p. 325)

How so?

In the market economy the realization of technological innovations does not require anything more than the cognizance of their reasonableness by one or a few enlightened spirits... They are free to embark upon their projects even if everyone else laughs at them. Later, when the new, better and cheaper products appear on the market, these scoffers will scramble for them. However dull a man

may be, he knows how to tell the difference between a cheaper shoe and a more expensive one, and to appreciate the usefulness of new products.

But it is different in the field of social organization and economic policies. Here the best theories are useless if not supported by public opinion. (1998a, p. 863)

Bastiat takes a similar position. You do not have to grasp the principles of engineering to enjoy a watch, locomotive, or steamship. But other sciences exist "that influence the public only in proportion to the understanding of them that the public itself has, and that derive all their efficacy, not from the knowledge accumulated by a few exceptionally learned men, but from that diffused among mankind in general. These include ethics, hygiene, political economy, and, in countries where men are their own masters, politics."

So both Mises and Bastiat divide folly into the influential and the epiphenomenal. But how do they draw the line, and why? For Mises, the key distinction is apparently private versus collective choice. If *consumers* judge the applications of an idea, Mises does not worry whether the man in the street grasps underlying theories. Good ideas sell, bad ideas flop. If however *voters* judge the applications of an idea, Mises sees no filter other than their directly assessment of the idea.

Reviewing Bastiat's list shows that he draws the line differently. One of his chief examples - hygiene - lies on the private choice side of the ledger. He is *not* tacitly pointing to externalities; context shows that he is talking about health in general, not contagious diseases alone. Mises would presumably respond that: "However dull a man may be, he knows how to tell the difference between health and sickness, and to appreciate the usefulness of new treatments." But Bastiat is roughly as pessimistic about the prevalence and damage of "hygiene sophistry" as he is about economic sophistry.

One important question to consider, then, is: Which dividing line is closer to the truth - Mises' or Bastiat's? Caplan's (2001) rational irrationality model coheres well with Mises' account: irrational views about hygiene are risky for your health and your wallet. But recent research in health economics provide some suggestive evidence for Bastiat's claim. Medical quackery appears to have held a substantial market share for a long time (Gardner 1957), and the public appears to overestimate the impact of orthodox medicine on health (Newhouse et al 1993).

It should also be realized that modern political conditions may have moved the line. In Bastiat or Mises' day, misconceptions about natural science had few policy implications. Given modern environmental policies, however, systematically biased beliefs about physics or chemistry could be harmful indeed. Overestimates of the risk of nuclear power or global warming hardly seem epiphenomenal. In fact, a fascinating comparison of lay-expert beliefs about toxicology (Kraus, Malmfors, and Slovic 1991) finds ubiquitous systematic errors on the part of the public. Their findings highlight the plausibility of linking foolish environmental policies to scientific misconceptions.

Intellectuals and public opinion. Both Mises and Bastiat frequently trace the public's misconceptions back to intellectuals. In a characteristic statement, Mises (1998a, p. 864) assures us that "The masses, the hosts of common men, do not conceive any ideas, sound or unsound. They only choose between the ideologies developed by the intellectual leaders of mankind." It follows that socialist intellectuals are to blame for the popularity of socialism:

The masses favor socialism because they trust the socialist propaganda of the intellectuals. The intellectuals, not the populace, are molding public opinion. It is a lame excuse of the intellectuals that they must yield to the masses. They

themselves have generated the socialist ideas and indoctrinated the masses with them. (1981a, p. 540)

Given this view, it is not surprising that the Mises-Bastiat strategy for making the world better is to convert the intellectuals to free-market ideas. A new generation of right-thinking intellectuals can then undo the damage caused by earlier ones. Bastiat supported economists' "hand-to-hand struggle, this ever reviving combat with popular error." (1964a, p. 121) Mises makes an impassioned plea to fellow intellectuals:

If we want to avoid the destruction of Western civilization and the relapse into primitive wretchedness, we must change the mentality of our fellow citizens. We must make them realize what they owe to the much vilified "economic freedom," the system of free enterprise and capitalism. (1981b, p. 325)

These are stimulating hypotheses, and flattering to the intellectual's ego. To what extent are they correct? Do intellectuals control the world? The history of religion provides a possible counterexample. Until recent centuries, almost all intellectuals in the Western world actively promoted some form of Christianity. A cynic might claim that the masses' religious beliefs were a mere reflection of the religious beliefs of the cognitive elite. But the last two centuries provide an interesting test. Intellectuals have become markedly more critical of religion. And while one might argue that the public has become more secular as well, much of the public has refused to follow the intellectuals' lead. Their influence over the public is far from complete.

Similarly, while economists exert influence over popular economic beliefs, evidence suggests that sophistry has a life of its own. Only a handful of modern economists promote anti-foreign bias or make-work bias. Economists from the entire political spectrum agree on the biases' folly. But anti-foreign and make-work bias remain popular with the public.

Any economist who has taught introductory students knows how hard rooting such fallacies out is. You might lament that other intellectuals "got to your students first." But this requires a puzzling asymmetry: Why is putting fallacies into students so easy, but taking them out so hard? Is there a powerful first-mover advantage? Or perhaps, contrary to Mises, the masses are not a blank slate for intellectuals to write on. Maybe most of the public would endorse economic fallacies without any outside prodding. Bastiat hints at this when he remarks that "The good [of protection] is apparent to the outer eye; the harm reveals itself only to the inner eye of the mind." (1964a, p. 4)

This does not mean that the hopes of Mises and Bastiat for improving economic literacy are in vain. Indeed, Caplan (2001) finds that education makes people think "more like economists," which is consistent with theory that economists are already making a difference. Still, it suggests that some mistakes will be easier to root out than others.

One plausible hypothesis is that ideas originating with intellectuals are easier to permanently change than ideas that originate with the public itself. Take the fall of socialism. As Mises emphasizes, intellectuals created socialism and then sold it to the public. While socialist ideas inspired a couple of generations, they lacked staying power. Inside socialist regimes, intellectuals were unable to keep the faith alive, and began to lose faith themselves. In the outside world, critics of socialism regained the intellectual high ground and moved public opinion in the opposite direction. Traditional socialism seems unlikely to revive anytime soon, though perhaps some shrewd "repackaging" of the socialist ideal will be enough to confound that expectation.¹⁹

In contrast, protectionism has been harder to permanently defeat. For Mises, one of the great successes in the history of political economy was the 19th century free trade movement. But this victory did not last. Public opinion data is lacking, but we suspect that public conversion to free trade was at best superficial. Perhaps anti-foreign bias was only dormant, waiting to be revived by the next macroeconomic shock.

Special interests and public opinion. How do special interests and public opinion interact? Mises and Bastiat present two slightly different mechanisms. One is to directly influence public opinion in the interests' favor. Politicians then respond to the change in public opinion by adopting policies more favorable to the special interest group in question. Thus, Bastiat observes that:

To rob the public, it is necessary to deceive it. To deceive it is to persuade it that it is being robbed for its own benefit, and to induce it to accept, in exchange for its property, services that are fictitious or often even worse. This is the purpose of sophistry, whether it be theocratic, economic, political, or monetary. (1964a, p. 125-6)

Mises often tells the same story. At other times, though, he has a different mechanism in mind: a "co-factor theory" in which public opinion sets the ground rules, but competitive rent-seeking determines the victors. If nobody plays, nobody wins:

There were and there will always be people whose selfish ambitions demand protection for vested interests and who hope to derive advantage from measures restricting competition... Whether or not their desire to make economic conditions rigid and to hinder improvements can be realized, depends on the climate of public opinion. (1998a, p.268)

Mises' thesis, apparently, is that special interests take advantage of the leeway provided by *preexisting* public opinion. Thus, although the public favors industrial policy for declining industries in general terms, the overall level and direction of industrial policy might still depend on lobbying effort. If no industry bothered to lobby, an industrial policy might not emerge despite the public's sympathies.

The slippery slope. Mises is a firm believer in the slippery slope of government intervention. His mechanism hinges, as usual, on public opinion:

Popular opinion ascribes all these evils to the capitalistic system. As a remedy for the undesirable effects of interventionism they ask for still more interventionism. They blame capitalism for the effects of the actions of governments which pursue an anti-capitalistic policy. (1998b, p.78)

On this account, the public not only underestimates the benefits of the market economy; it also overestimates the probability that the market is to blame for *new* problems. Even a mild anti-market bias can potentially snowball out of control. For example, Mises repeatedly blames the rise of economic nationalism on domestic interventionism.

It is easy to empirically criticize Mises' slippery slope argument. (Ikeda 1997) Despite his grim predictions, no Western economy decayed into full-blown socialism, and the heavily regulated labor markets of the European Union have not prevented its move to internal free trade. This does not mean, though, that Mises' idea is without merit. Maybe he merely overlooked some countervailing forces.

Limiting democracy. If democracy cannot be trusted to deliver sound economic policies, what about rule by an economically literate elite - a liberal dictatorship? Mises takes a strong stand against free-market vanguardism:

[V]ictory... can be won only with the weapons of the intellect, never by force. The suppression of all opposition by sheer violence is a most unsuitable way to win adherents to one's cause. Resort to naked force—that is, without justification in terms of intellectual arguments accepted by public opinion—merely gains new friends for those whom one is thereby trying to combat. (1978, p.50)

Vanguardism is most appealing, of course, if only temporary - if a brief suspension of a democracy with bad policies lays the groundwork for a democracy with good policies. This, Mises observed during the last years of the British and French empires, is a common rationale for colonialism. He was unconvinced:

Attempts have been made to extenuate and gloss over the true motive of colonial policy with the excuse that its sole object was to make it possible for primitive peoples to share in the blessings of European civilization. Even assuming that this was the real objective... the liberal could not see any adequate basis for regarding this kind of colonization as useful or beneficial. If, as we believe, European civilization really is superior... it should be able to prove its superiority by inspiring these peoples to adopt it of their own accord. Could there be a more doleful proof of the sterility of European civilization than that it can be spread by no other means than fire and sword? (1978, p.125)

Abroad as at home, resort to naked force discredits one's own ideas.

Mises' argument is stimulating. But are matters always the way he suggests? Pinochet's Chilean dictatorship is one troubling counterexample. By seizing power, implementing unpopular market-oriented reforms and letting the country see the results, Pinochet's regime changed people's minds. The return of democracy left his economic policies largely in place. (Stallings and Brock 1993; Sachs 1990) To take a milder example, advisors to transition economies often favor a "reform first, ask the public later" approach. (Sachs 1994) This supposedly improves long-run policy quality, whether by "winning hearts and minds" or mere inertia.

Bastiat is sympathetic to a less radical departure from democratic principles: franchise restriction. He frankly states that "the right to suffrage rests on the presumption of capacity." (1964c, p. 57) His rationale, to use modern language, is voter-on-voter externalities:

And why is incapacity a cause of exclusion? Because it is not the voter alone who must bear the consequences of his vote; because each vote involves and affects the whole community; because the community clearly has the right to require some guarantee as to the acts on which its welfare and existence depend. (1964c, p. 57-8)

While Bastiat is not fully convinced, he takes the logic seriously. Perhaps modern political economists should as well.

7. Conclusion

Mises' critique of Enlightenment liberalism applies almost verbatim to modern rational choice political economy:

They blithely assumed that what is reasonable will carry on merely on account of its reasonableness. They never gave a thought to the possibility that public opinion could favor spurious ideologies whose realization would harm welfare and well-being and disintegrate social cooperation... They did not anticipate the popularity which ideas which they would have called reactionary, superstitious, and unreasonable acquired in the nineteenth and twentieth centuries. They were so fully imbued with the assumption that all men are endowed with the faculty of correct reasoning that they entirely misconstrued the meaning of the portents. (1998b, p. 864-5)

The only difference is the degree of naïveté. The Enlightenment liberals - with obvious exceptions like Bastiat - were refuted by events in the future. Modern political economy has been refuted by events in the past.

For many social scientists, the assumption of voter rationality is so *a priori* convincing that practically nothing could change their minds. They meet counter-evidence each time they grade exams, but a firewall separates their daily experience from their research program. Thus, we have a curious spectacle: Mises, the notorious *a priorist*, shows more respect for facts than allegedly open-minded empiricists.

Mises was not able to leapfrog over the mistakes of public choice because he was a subtler theorist. His story is transparently simple. Mises was not more insightful because he had more data. He had less. Mises succeeded because he *paid attention* to the data he had. He recognized that the question "Do voters have systematically biased beliefs about economics?" is an empirical one. To answer it, he looked at the world, not a formal mathematical model.

Mises' study of public opinion gave him a great advantage over other economists: sound microfoundations. Once he saw the man on the street as he truly was, it became easy to explain why political competition fails to deliver efficient policies. His view allowed him to appeal to voter demand instead of implausible conspiracy theories.

Much of this article examines Mises and Bastiat retrospectively, showing how they independently reached recent discoveries. Reading Mises and Bastiat prospectively, to see what else they can teach us, is even more fascinating. Considering their track record, even their mistakes are likely to be fruitful.

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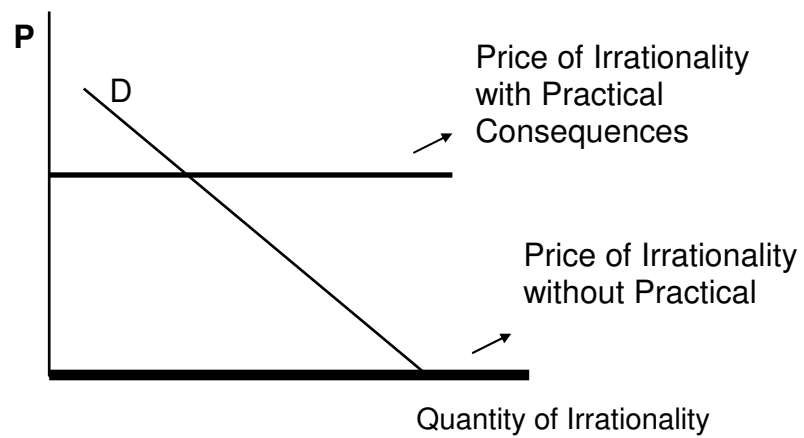
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Table 1: Public Opinion on Government Spending

<p><i>"We are faced with many problems in this country, none of which can be solved easily or inexpensively. I'm going to name some of these problems, and for each one I'd like you to tell me whether you think we're spending too much money on it, too little money, or about the right amount. Are we spending too much money, too little money, or about the right amount on..."</i></p>								
<p>-1="too much money" 0="about the right amount" 1="too little money"</p>								
	1983-87		1988-91		1994		1998	
	Median	Mean	Median	Mean	Median	Mean	Median	Mean
Extremely Popular Spending								
improving/protecting the environment	1	.54	1	.67	1	.53	1	.55
health care	1	.56	1	.68	1	.58	1	.63
improving the nation's education system	1	.57	1	.66	1	.66	1	.65
halting the rising crime rate	1	.64	1	.67	1	.71	1	.56
dealing with drug addiction	1	.58	1	.61	1	.54	1	.51
Popular Spending								
Social Security	1	.48	1	.50	0	.42	1	.53
highways/bridges	0	.32	0	.32	0	.33	0	.30
parks and recreation	0	.25	0	.27	0	.24	0	.29
Marginally Popular Spending								
military/armaments/defense	0	-.19	0	-.24	0	-.18	0	-.14
Unpopular Spending								
space exploration	0	-.29	0	-.24	-1	-.41	0	-.31
Welfare	0	-.24	0	-.18	-1	-.49	0	-.42
Extremely Unpopular Spending								
foreign aid	-1	-.68	-1	-.67	-1	-.70	-1	-.57
<p>Source: General Social Survey (Multiple Years). Variable identifiers NATENVIR, NATHEAL, NATEDUC, NATCRIME, NATDRUG, NATSOC, NATROAD, NATPARK, NATARMS, NATSPAC, NATFARE, and NATAID.</p>								

Figure 1: The Demand for Irrationality



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¹ "I do not hold that Bastiat was a bad theorist. I hold that he was no theorist." Schumpeter (1954, p. 500)

² For Mises, *public opinion* refers largely to the public's beliefs about the effects of government policy, as well as policy preferences based on those beliefs. Unlike Kuran (1995), Mises does not emphasize the tendency of social pressure to make members of the public hide their true policy beliefs. We thank a referee for asking us to elaborate on this point.

³ At the same time, Mises has great confidence in the ability of the man in the street to make wise consumption decisions. He takes issue with those who see the common man as "a helpless infant, badly in need of a paternal guardian to protect him against the sly tricks of a band of rogues." (1998 a, p.735) Thus, while Mises often describes the public in harsh terms, what he questions is their political competence, not their ability to run their own lives or their overall character. Indeed, as an anonymous referee points out, Mises' sees collectivist intellectuals as much more blameworthy than the common man.

⁴ Before the rational expectations revolution, most economists saw "irrationality" as essentially equivalent to "having intransitive preferences," and referred to action based on intransitive preferences as "irrational behavior." The rational expectations revolution shifted attention away from the rationality of *behavior* to the rationality of *beliefs*. The

assumption of rational expectations rules out systematic and/or predictable errors, but explicitly allows for *random errors with zero mean*. Economists have come to equate the former type of erroneous belief with "irrationality," and the latter type with "ignorance." We follow this usage throughout the paper.

⁵ An anonymous referee points out that Mises appears to take the opposite position elsewhere in his writings. In a characteristic passage, Mises tells us that: "Human action is *necessarily always rational*. The term 'rational action' is therefore pleonastic and must be rejected as such." (1998 a, p.19; emphasis added) But the contradiction is only apparent. Mises simply has a much lower threshold for "rationality" than modern economists do. Mises' definition of "rationality" does not rule out illogical fanaticism; the definition of "rationality" prevalent since the rational expectations revolution does.

Furthermore, Mises objects only to the phrase "irrational *action*," not "irrational *belief*." Indeed, *Human Action* contains an entire chapter on "Economics and the Revolt Against Reason," in which Mises rebuts those who "attack logic and reason and substitute mystical intuition for ratiocination." (1998 a, p.74) Thus, while he refuses to say that people in "revolt against reason" are *acting* irrationally, he is quite willing to say that their *beliefs* are not rationally justifiable.

⁶ A more radical point that often appears in the public choice literature is that the "will of the majority" is undefined due to social intransitivities; incompatible policies can often legitimately claim majority support. Even with no agency problems whatever, an agenda-setting politician then has the discretion to choose any element of the set of policies able to command a majority. Adding agency problems further expands the agenda-setter's choice.

⁷ Almost all public choice scholars admit that democratic governments are dependent on public opinion to some degree. Even Brennan and Buchanan's Leviathan model of democracy is a tool for "worst-case" thinking, not a literal description. (Brennan and Buchanan, 1985).

⁸ Indeed, even if one voter happened to learn the truth, it would rarely be worth doing anything about it: Mailing a letter of protest to your congressman usually costs more than your share of the cost of any one program.

⁹ We thank an anonymous referee for raising this point.

¹⁰ Indeed, subsidized publicity would arguably *reduce* the vote shares of radical third parties. Many, perhaps most, of their votes come from disenchanted citizens who sympathize with the third parties' general aspirations, but who would be repelled by their radical platforms.

¹¹ The most interesting piece of counter-evidence is that large majorities embrace free trade if combined with assistance for displaced workers. In the Worldviews (2002) survey, respondents' three choices are: free trade with worker assistance, free trade without worker assistance, and "I do not favor free trade." Almost 75 percent select the first answer. We would argue, however, that this is in large part a question-wording effect. Most obviously, the last option should have been split into "no free trade + worker assistance" and "no free trade + no worker assistance." The binary choice between "free trade" and "no free trade" probably masks the public's preference for an intermediate policy. And finally, the alternative to free trade should have been more positively labeled as e.g. "fair trade."

¹² See *General Social Survey* (1998) variable identifiers CUTGOVT and TAXSPEND.

¹³ See *General Social Survey* (1998) variable identifiers LESSREG, PRICECON, REQINFO, HLPHITEC, SAVEJOBS, MAKEJOBS, CUTHOURS, and JOBSALL.

¹⁴ See *General Social Survey* (1998) variable identifiers OWNPOWER, OWNMASS, OWNSTEEL, OWNBANKS, and OWNAUTOS.

¹⁵ See *General Social Survey* (1998) variable identifiers LETIN and PRAYER. One might want to attribute this to the undemocratic nature of the Supreme Court. But elected officials appoint the Justices. Wittman would have to grant that politicians have all the usual incentives to make judicial appointments the electorate will approve.

¹⁶ Modern public opinion research also generally finds, consistent with most of the observations of Mises and Bastiat on the subject, that narrow self-interest has little effect on political beliefs. The rich are almost as supportive of redistribution as the poor, to take one classic example. (Sears and Funk 1990; Citrin and Green 1990)

¹⁷ Note that this test will fail to detect deviations from rational expectations if both groups are identically biased.

¹⁸ Rubin (2003), explicitly building on Caplan's analysis of the SAEE, tries to explain the public's systematically biased beliefs about economics using evolutionary psychology. Rubin argues that primitive man evolved in a largely zero-sum environment. This in turn makes it difficult for modern human beings to comprehend the central features of modern positive-sum economies.

¹⁹ We thank an anonymous referee for raising the latter possibility.